

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-11 ISO-00 SP-02 USIA-15 AID-05

EB-07 NSC-05 CIEP-02 TRSE-00 SS-15 STR-04 OMB-01

CEA-01 CIAE-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06

LAB-04 SIL-01 /123 W

----- 050989

R 171758Z MAR 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 9943

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY NEW DELHI

AMEMBASSY PARIS

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AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDEL MTN GENEVA

USDOC WASHDC

UNCLAS SECTION 01 OF 03 LONDON 04200

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD MARCH 11 THRU
MARCH 17

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SUMMARY: THE PRIME MINISTER'S UNEXPECTED RESIGNATION ADDS TO THE RECENT TURBULENCE ON THE FOREIGN EXCHANGE MARKETS AND TO THE UNEASE CREATED BY THE DOWNWARD REVISIONS IN THE INDEX OF INDUSTRIAL PRODUCTION WHICH ERASED THE APPARENT GAINS OF THE FOURTH QUARTER. THIS, COMBINED WITH LOWER FEBRUARY RETAIL SALES AND THE SOMEWHAT DISAPPOINTING TRADE FIGURES, HAS TAKEN MUCH OF THE WIND FROM THE SAILS OF THOSE WHO BELIEVED THAT THE ECONOMY HAD STARTED TO MOVE AWAY FROM THE BOTTOM OF THE TROUGH BEFORE THE END OF 1975. IT NOW APPEARS THAT THE SHIFT TO AN UPWARD TREND HAS SLIPPED INTO THE FIRST QUARTER OF 1976. END SUMMARY

1. RETAIL SALES. THE FEBRUARY INDEX OF RETAIL SALES (1971 EQUALS 100) DROPPED 2.1 PERCENT THUS ERASING MOST OF JANUARY'S 2.6 PERCENT IMPROVEMENT. PROVISIONAL ESTIMATES PUT THE INDEX AT 107.5 AFTER 109.8 A MONTH EARLIER. SINCE THE JANUARY RESULTS WERE BUOYED BY HEAVY POST-CHRISTMAS CLEARANCE SALES, THE FEBRUARY DECLINE IS MORE OF A RETURN TO THE UNDERLYING TREND THAN A SIGNAL OF WANING CONSUMER CONFIDENCE. THE INDEX STANDS 2.2 PERCENT ABOVE ITS LEVEL OF THREE MONTHS EARLIER. NEVERTHELESS, THE VOLUME OF RETAIL SALES REMAINS 3 PERCENT BELOW THE LEVELS PREVAILING IN THE FOURTH QUARTER OF 1974 AND FIRST QUARTER OF 1975.

2. INDUSTRIAL PRODUCTION. THE OVERALL INDEX OF INDUSTRIAL PRODUCTION ROSE BY 0.9 PERCENT IN JANUARY. THE JANUARY FIGURES FOLLOW MAJOR REVISIONS IN THE INDEX FOR THE LAST THREE MONTHS OF 1975. THE FOLLOWING TABLE REFLECTS THE ORIGINAL AND REVISED FIGURES BOTH FOR THE OVERALL INDEX AND THE NARROWER INDEX OF MANUFACTURING PRODUCTION WHICH AMOUNTS TO ABOUT 75 PERCENT OF THE TOTAL.

1970 EQUALS 100

	OVERALL INDEX		MANUFACTURING INDEX	
	OLD	REVISED	OLD	REVISED
OCTOBER	101.5	100.2	101.2	100.5
NOVEMBER	101.5	100.2	101.1	100.5
DECEMBER	100.6	98.8	99.8	98.5
JANUARY	-	99.7	-	100.5

REVISIONS IN THIS INDEX ARE COMMON OCCURRENCES SINCE WHAT UNCLASSIFIED

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IS BEING MEASURED IS DELIVERIES EX FACTORY RATHER THAN ACTUAL PRODUCTION. THIS RESULTS IN A LAG BETWEEN THE TIME WHEN ACTUAL PRODUCTION TURNS UP OR DOWN AND WHEN THIS CHANGE IS REFLECTED IN THE INDEX. IN ADDITION THE SEASONAL ADJUSTMENT FACTORS ARE NOT YET REFINED ENOUGH TO TAKE INTO ACCOUNT CHANGES IN PRODUCTION SCHEDULES RESULTING FROM AN EXTRA PAID HOLIDAY ON JANUARY 1. THIS YEAR MANY FIRMS ACTUALLY SHUTDOWN DURING THE LAST WEEK

IN DECEMBER RATHER THAN OPERATE WITH SKELETON STAFFS.

IN LIGHT OF THIS, THE JANUARY INCREASES OF 0.9 PERCENT AND 2.0 PERCENT IN THE OVERALL AND MANUFACTURING INDICES MAY FINALLY BE CONFIRMING THE CHANGE IN TREND THAT APPEARED TO HAVE GOTTEN UNDERWAY DURING THE FOURTH QUARTER WITH CHEMICALS AND "MINING AND QUARRYING" SHOWING THE STRONGEST RISES.

3. BALANCE OF PAYMENTS. AS A RESULT OF A MODEST INCREASE IN IMPORTS, THE UK CURRENT ACCOUNT DEFICIT INCREASED FROM THE 53 MILLION POUND LEVEL IN JANUARY TO 129 MILLION POUNDS IN FEBRUARY. ALTHOUGH EXPORT VOLUME FELL BY ABOUT TWO PERCENT, DEPARTMENT OF TRADE PROJECTIONS BASED ON NEW EXPORT ORDERS INDICATE THAT THE DE-

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ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-11 ISO-00 SP-02 USIA-15 AID-05

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CEA-01 CIAE-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06

LAB-04 SIL-01 /123 W

----- 051096

R 171758Z MAR 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 9944

INFO AMEMBASSY BERN

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AMEMBASSY COPENHAGEN

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CLINE IN FEBRUARY WAS NOT INDICATIVE OF THE UNDERLYING TREND. THE IMPORT VOLUME ROSE BY 0.8 PERCENT WHEREAS THE TERMS OF TRADE ROSE 0.4 PERCENT AS THE VALUE OF EXPORTS ROSE MORE RAPIDLY THAN THE VALUE OF IMPORTS. SEE UNCLASSIFIED

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LONDON 3984 FOR DETAILS AND TABLES.

4. FOREIGN EXCHANGE MARKETS. IT WAS ANOTHER HECTIC WEEK ON THE LONDON FOREIGN EXCHANGE MARKET AS THE FRENCH WITHDRAWAL FROM THE SNAKE AND THE RESIGNATION OF PRIME MINISTER WILSON ADDED FURTHER UNCERTAINTY TO AN ALREADY NERVOUS MARKET. THE DOLLAR/STERLING RATE FLUCTUATED BETWEEN \$1.9355 AND \$1.9125 THROUGHOUT MOST OF THE WEEK WITH THE RATE FALLING INTO THE \$1.90'S AT ONE POINT. THERE WERE INITIAL SIGNS OF CALMING ON FRIDAY (MARCH 12) FOLLOWING A STATEMENT IN PARLIAMENT ON THURSDAY BY THE PRIME MINISTER, AND REITERATED ON A PRE-RECORDED RADIO BROADCAST, THAT THE "GOVERNMENT IS PREPARED TO ASSERT ITS FULL DETERMINATION TO PROVIDE WHATEVER PROTECTION IS NECESSARY (FOR STERLING)." IN OUTLINING THE GOVERNMENT'S EXCHANGE RATE POLICY IN PARLIAMENT, WILSON IS QUOTED AS SAYING:

"THE COUNTER-INFLATION POLICY WAS BASIC TO STRENGTHENING THE ECONOMY AND STABILIZING THE VALUE OF THE CURRENCY. STERLING HAD BEEN RELATIVELY FIRM FOR SOME MONTHS. WHILE THERE WAS A GOOD DEAL OF DISTURBANCE IN EXCHANGE MARKETS AFFECTING OTHER CURRENCIES IN RECENT WEEKS STERLING ENJOYED A WELCOME PERIOD OF CALM.

"BUT THE FACT HAD TO BE FACED THAT THE STERLING EXCHANGE RATE WAS DETERMINED BASICALLY BY MARKET FORCES. ALTHOUGH SUBSTANTIAL HEADWAY HAD BEEN MADE IN BRINGING INFLATION DOWN IN THIS COUNTRY OVER THESE PAST MONTHS BRITAIN'S INFLATION RATE WAS STILL ABOVE THAT OF OTHER IMPORTANT COUNTRIES. IT WAS INEVITABLE THAT AT SOME STAGE THE MARKET SHOULD EXERT SOME DOWNWARD PRESSURE ON THE EXCHANGE RATE, WHICH WAS WHAT HAD BEEN SEEN IN THE PAST FEW DAYS.

"IN LINE (HE SAID) WITH OUR CONCERN TO MINIMIZE THE DISTURBANCE, BOTH DOMESTICALLY AND INTERNATIONAL LY, WE HAVE SHOWN OUR DETERMINATION BY APPROPRIATELY DIRECTED INTERVENTION TO RESTORE STABLE CONDITIONS. WE AGREED TO ACT IN THIS WAY AT RAMBOUILLET LAST YEAR.

"WE SHALL CONTINUE TO DO THIS TO THE EXTENT NECESSARY, ALTHOUGH IT WOULD BE WRONG FOR ME TO SAY MORE IN PUBLIC ABOUT THE TECHNIQUES OR INTENTIONS ABOUT UNCLASSIFIED

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INTERVENTION POLICY. THE GOVERNMENT ARE PREPARED TO ASSERT THEIR FULL DETERMINATION TO PROVIDE WHATEVER PROTECTION IS NECESSARY."

HOWEVER, FOLLOWING THE WILSON RESIGNATION STATEMENT ON TUESDAY (MARCH 16), THE POUND IMMEDIATELY DROPPED OVER 100 BASIS POINTS AS UNCERTAINTY RETURNED TO THE MARKET. IT IS WIDELY REPORTED THAT THE BANK OF ENGLAND WAS AGAIN ACTIVE IN THE MARKET PROVIDING ABOUT \$100 MILLION IN SUPPORT ON TUESDAY, BRINGING THE TOTAL BOE INTERVENTION TO \$825 MILLION POUNDS DURING THE SEVEN-DAY PERIOD MARCH 10-16.

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CEA-01 CIAE-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06

LAB-04 SIL-01 /123 W

----- 051247

R 171758Z MAR 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 9945
 INFO AMEMBASSY BERN
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5. EXCHANGE RATE AND GOLD

DATE	EXCHANGE RATE (\$)	EFFECTIVE DEPRECIATION	GOLD
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(PERCENT)			
DATE	EXCHANGE RATE (\$)	EFFECTIVE DEPRECIATION	GOLD
3/10	1.9127	33.8	134.00
3/11	1.9355	33.3	133.75
3/12	1.9265	33.5	133.50
3/15	1.9230	33.5	134.00
3/16	1.9135	33.6	132.75
CHANGE 3/9-3/16 DN 0.0280 WIDENED 0.4 DN 0.50			

6. FORWARD DISCOUNT ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
3/10	0.90	2.10	3.85
3/11	0.95	2.20	3.90
3/12	1.25	2.60	4.55
3/15	1.12	2.50	4.50
3/16	1.05	2.45	4.45
CHANGE 3/9-3/16 UP 0.35 UP 0.68 UP 0.90			
(ALL FIGURES IN CENTS)			

7. EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
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3/10	5	5-1/2	6-3/8
3/11	5-1/4	5-5/8	6-1/2
3/12	5-1/4	5-5/8	6-1/2
3/15	5-1/4	5-5/8	6-1/2
3/16	5-1/4	5-3/4	6-1/2

CHANGE 3/9-3/16 UNCHANGED UNCHANGED UNCHANGED

8. STERLING CERTIFICATES OF DEPOSIT

DATE	1 MONTH	3 MONTHS	6 MONTHS
3/10	8-3/8	8-5/8	9-1/16
3/11	8-17/32	8-11/16	9-7/32
3/12	8-7/16	8-3/4	9-3/16
3/L5	8-1/4	8-5/8	9-1/4
3/16	8-1/8	8-1/2	9-1/16

CHANGE 3-9-3/16 DN 9/16 DN 1/8 UNCHANGED

THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 9 PER-
CENT ON FRIDAY, MARCH 12. ARMSTRONG

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
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Copy: SINGLE
Draft Date: 17 MAR 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Legacy Key: link1976/newtext/t19760352/aaaabtqt.tel
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Reference: n/a
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Review Authority: wolfsd
Review Comment: n/a
Review Content Flags:
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Review Event:
Review Exemptions: n/a
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Margaret P. Grafeld
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04 MAY 2006

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Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS FOR PERIOD MARCH 11 THRU MARCH 17
TAGS: ECON, UK
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006